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GENEVA FOR WTO REPS

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SUBJECT: THE CUSTOMS UNION IS GOING TO GENEVA - TO SEE WHAT
IT CAN GET

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11. (C) Summary: During the August 12 Russia, Belarus, Kazakhstan Customs Union (RBKCU) Summit, the members agreed to negotiate WTO accession using a joint negotiating team headed by Maxim Medvedkov, Russia's lead WTO negotiator. Medvedkov and his new tri-country team will go to Geneva in early September to meet with the WTO secretariat and "figure out together how this is going to work." According to press reports, Vice-Prime Minister Igor Shuvalov stated that the ultimate objective of the WTO process is identical accession agreements, even if signed individually, and simultaneous accession. It is clear that Russia's tariffs and WTO Working Party Agreement is the model the group will follow in all areas of negotiation. The primary challenge Medvedkov will face in Geneva will be the WTO Secretariat's reported preference for three legally separate negotiations with harmonized agreements. The RBKCU also has internal differences to resolve in areas such as aviation, and regulatory and customs practices. What is clear is that Russia is trying to balance its regional interests and ties with the WTO process. The fact that Russian leaders continue to keep open the option of joining the international trade world says a great deal about its commitment to the WTO process. Whether Belarus and Kazakhstan are ready to go along for the ride "Russian style," however, is unclear from Moscow. End Summary.

A new troika will go to Geneva...

12. (C) On August 18 econoff met with Deputy Director of Foreign Economic Relations of the Ministry of Industry and Trade Sergey Shilov, and on August 20 with WTO Unit chief of the Department of Multilateral Trade Negotiations in the Ministry of Economic Development Michael Cherekaev, to discuss progress on the Russia-Belarus-Kazakhstan Customs Union (RBKCU) and its effect on Russia's WTO accession process. Both confirmed press reports that during the August 12 Customs Union Summit the members agreed to negotiate the WTO accession using a joint negotiating team headed by Maxim Medvedkov, Russia's lead WTO negotiator. Shilov stated that Medvedkov will lead his new tri-country team to Geneva in early September to meet with the WTO secretariat and "figure out together how this is going to work." He added that even if some parts of the negotiations take place bilaterally,

other RBKCU members would be fully informed: "We will have no secrets." Shilov stated that because Medvedkov has direct lines of communications with both President Medvedev and Prime Minister Putin, he has the authority to make the necessary decisions to move the process forward without having to clear them through several layers of government.

...with Russia holding the reins

¶3. (C) According to press reports, Vice-Prime Minister Igor Shuvalov stated that the ultimate objective of the WTO process is identical accession agreements, even if signed individually, and simultaneous accession. While publicly, this is being played as a joint, communal process, it is clear that Russia has taken a firm lead in defining the model the group will follow in all areas of negotiation. During an interview with the Rosiiskaya Gazeta, the official state newspaper, Medvedkov asserted, "most importantly, we must preserve Russia's negotiations with the WTO as much as possible. We have to discuss with our partners how they view this and whether or not they are prepared to do this." Privately Cherekaev strengthened this, stating, "We will keep the arrangements for Russia and we will bring Belarus and Kazakhstan to the same terms."

¶4. (C) On August 14 Belarusian Economic Counselor in Moscow Oleg Belov told econoff that Belarus stands ready to do what is necessary for the WTO accession to occur simultaneously. When pressed about the difference between the Russian and Belarusian stages of accession negotiations, he responded

MOSCOW 00002204 002 OF 003

that Belarusian legislation has been, and is being, brought into compliance with WTO standards since Belarus launched its own accession talks in 1993. He added that Belarusian and Russian legislation are so close that it will not be difficult for Belarus "to do what is needed to complete the joint process." In his opinion, Kazakhstan has changed its legislation the most since the Soviet period and will therefore face more challenges in meeting the terms of the Russian WTO Working Party Agreement.

But they will encounter challenges

¶5. (C) The primary challenge Medvedkov and his tri-country team will face in Geneva will be the WTO Secretariat and member states' reported preference for three legally separate negotiations with harmonized agreements. Depending on how determined the RBKCU is to keep to its joint negotiating team format, the re-start of accession negotiations will certainly face a marked delay, not to mention skepticism from other WTO member countries.

¶6. (C) Before the RBKCU gets that far, however, it has internal problems to resolve. We are hearing through various governmental and private channels that serious differences exist among the three countries in the areas of meat, medicines, and aviation. In meetings with visiting A/USTR Chris Wilson in July, Shilov pointed to a serious challenge when he mentioned that regulatory and customs practices in all three countries have changed more than expected since the end of the Soviet Union. He stated that "some countries, in an effort to come closer to the West" have moved quite far from the Soviet standards. During a recent meeting, Shilov also mentioned a shortage of trade and customs experts in all three countries. He told econoff that even Russia was having trouble staffing its ministries, the RBKCU secretariat (septel), and the WTO negotiating team. He stated he knew that the Kazakh team was feeling particularly stretched.

Straddling regional and global priorities

¶7. (C) What is clear from all our conversations with our

Russian interlocutors is that Russia is trying to balance its regional interests and ties with the WTO process. According to Cherekaev, both the WTO and RBKCU are high priorities for Russia and they see both as intrinsically intertwined. The existing industrial supply chains, remaining from Soviet times, continue to be strong and make it impossible for the three countries to be on opposite sides of the WTO fence. For Russia to reap benefits from trade under WTO terms, these supply chains cannot be interrupted. The Customs Union, if it is legally protected within the WTO, will ensure that these supply chains continue to work and benefit Russia, according to Cherekaev. "Russia cannot sacrifice regional integration to the WTO."

¶18. (SBU) EU Director of Economic, Trade and Agricultural Affairs in Moscow Timo Hammaren believes, however, that Russia has been looking for options outside of the WTO process for a while because it has felt "mistreated" by the long accession negotiation. Nevertheless, the EU did not take this search too seriously because Russia had been saying all along that it would join the WTO first and use its accession agreement as a basis for the RBKCU. However, Kazakhstan reportedly surprised Russia on June 7 with an agreement to accept Russian vehicle tariffs (a point that had long stalled RBKCU negotiations) in exchange for a joint WTO accession process.

Comment

¶19. (C) Russia has been trying to move in two simultaneous directions on trade -- multilateral and regional. The fact that Russian leaders continue to keep open the option of joining the international trade world as a full and equal member, while simultaneously and quickly moving forward in solidifying its regional leadership posture, says a great deal about the commitment of many of Russia's economic decision-makers to the WTO process. This does not, however, discount protectionist tendencies within Russia. Russia cannot seem to resist its instinct to protect native industry

MOSCOW 00002204 003 OF 003

in order to "help its development." In fact, in a July meeting Cherekaev told econoff that President Putin had ordered the government "not to implement any part of the WTO Working Party Agreement until actual accession is completed."

The unexpected breakthrough with Kazakhstan in Customs Union negotiations may have provided Russia with the tool that it needed to legitimately avoid difficult economic reforms that would be needed for WTO accession in 2009.

¶10. (C) With regard to the RBKCU itself, while we are hearing from the GOR that things are moving forward quickly and all parties are on the same page, it is unclear whether Belarus and Kazakhstan share this view, or that they have a full understanding of what completing the WTO accession process "Russian style" means. In particular, we question whether they are prepared to concede sovereignty on all trade issues to Russia, as Russia is insisting has been agreed among the Customs Union parties. End comment

¶11. (U) Post will report additional details on Customs Union developments septel.
Beyrle